

~~17273~~ 114552

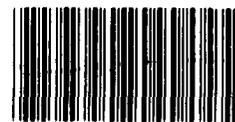
U.S. General Accounting Office
Washington, D.C.

FOR RELEASE ON DELIVERY
Expected at 9:30 a.m
Tuesday, March 10, 1981

STATEMENT OF

DR. KENNETH J. COFFEY
ASSOCIATE DIRECTOR (MILITARY)
FEDERAL PERSONNEL AND COMPENSATION DIVISION

BEFORE THE
DEFENSE TASK FORCE
HOUSE COMMITTEE ON THE BUDGET



114552

ON

PROPOSALS FOR MORE EFFECTIVE MILITARY MANPOWER POLICIES

Mr. Chairman:

I am pleased to appear before the Defense Task Force to discuss, as you requested, the important and interrelated issues of our military policies concerning a salary system, 20-year retirement, and the objective enlisted military force composition. In our view, it appears that these complex issues have not yet been faced, probably because they are not easily related to dollar reductions in near-term or in the pending budget.

Regarding these three areas of concern, I hope that our testimony will clear up any misconceptions that may exist and possibly provide some impetus to face these critical issues squarely and soon. In our view, to do so will result in more effective Armed Forces, as well as long-term cost savings.

015915

Need for Salary System

Since the advent of the All-Volunteer Force (AVF) in 1973, the objective of military pay has changed from providing a reasonable standard of living at a minimum cost to the Government to providing pay that allows the Services to successfully compete with other employers for the quantity and quality of military personnel required.

Despite this changed objective, however, the traditional pay and allowance structure has been retained. In our view, this is an inefficient method of supporting the AVF, and we have repeatedly recommended conversion to a salary system, whereby all service personnel would be paid in cash, and distributions based on dependents, marital status, or whether the Government provided in-kind benefits would disappear.

Today, the military compensation package consists of a wide assortment of pay, allowances, and benefits. By convention, these elements are grouped into three categories: basic pay, quarter and subsistence allowances, and tax advantages--collectively called Regular Military Compensation (RMC).

The centerpiece of the RMC compensation system is basic pay. It is the only cash element of the RMC to which every service member is entitled, and it is considered to be "payment for work performed."

In addition to receiving basic pay, members of the Armed Force have traditionally been billeted and fed. Today, about one-half

of all military personnel live in government quarters and somewhat fewer--mostly unmarried junior enlisted personnel--receive subsistence in kind. The remainder receive cash allowances intended to defray the expense of obtaining the goods and services on the private economy. To offset food expense, military personnel are provided "subsistence allowances" which in October 1980 amounted to about \$83 a month for officers and about \$120 a month for enlisted men. To offset the costs of housing, quarters allowances--based on rank and dependency status--are paid. In certain high-cost areas, supplementary variable housing allowances also are paid. To a much greater degree than most public and private-sector institutions, the military relies on such allowances and in-kind compensation, and they account for about 30 percent of total military personnel costs.

Since subsistence, quarters, and housing allowances are not subject to Federal income or social security taxes, military personnel enjoy a tax advantage. The magnitude of this saving varies between personnel and is dependent upon the size of the allowances, total taxable income, and dependency status.

In our view, as expressed in several past GAO reports, a salary system is a better way to pay service personnel. Our reasons for this position are:

- Under the current system, members, managers, and the Congress have difficulty in accurately quantifying and evaluating military pay. Much of this difficulty stems from the "invisible" nature of compensation elements, such as Government-provided quarters and subsistence and particularly the tax advantage. A

fully taxable salary should (1) increase members' awareness of their pay, (2) improve management practices and the efficiency of attraction and retention programs, and (3) place both the Congress and DOD in a better position to evaluate the military compensation system.

--A salary system would eliminate inequities in pay between married and single members of the same grade and length of service.

--A salary system would more fully reflect the cost of military manpower rather than partially concealing it, through tax advantage, in reduced revenues to the Treasury.

Concerning the first or "visibility" reason, various studies have estimated the extent of the misperceptions surrounding the RMC received by service personnel. For example, the President's Commission on Military Compensation noted in their 1978 report that junior enlisted personnel underestimated the value of the RMC by about 20 percent.

At a time when the Services are unable to recruit enough higher quality recruits, there can be little doubt that an improvement in the perceived rewards of Armed Forces' enlistments would have a major impact on these recruiting problems.

The second reason--"inequities"--refers to the fact that married and single members do not receive equal compensation. Two factors account for this difference: the quarters allowance for married members is greater than that for unmarried personnel and preferential treatment is afforded to married personnel in the assignment of cheaper on-base housing.

The provision of greater rewards to married personnel fosters stability in the career force, but also has a negative impact on

readiness and mobilization, in that married personnel have joint loyalties in times of crisis to both their military duties and to their families. There also are increasing problems in the AVF which are associated with junior enlisted personnel with families. Since the end of the draft, there has been a marked increase in the proportion of new enlistees with families and the Services have not been able to provide them with the levels of support provided to more senior personnel. As a result, there are severe problems in meeting peacetime training and operations demands, with ever-more-serious problems predicted for deployment scenarios. At least for the young, first-term enlistees, there can be little doubt that the Services would benefit from having a larger unmarried force, and the provision of a salary which made no distinctions between married and single personnel would support the achievement of this goal.

The third reason--"full visibility of manpower costs"--would require additional appropriations for Armed Forces manpower accounts, estimated to be between \$2 and \$3 billion annually. Of this, however, about \$1.5 billion would be returned to the Treasury through income tax payments and another \$300 to \$500 million through increased social security payments. Whether net costs to the Government or net savings would result therefore would depend upon policy decisions concerning the equalization of pay for married and single personnel.

A plan that paid all members at the married Basic Allowance Quarters (BAQ) rate would be the most expensive since it would give

a pay raise to single persons. The cost to the Government would be close to zero if BAQ rates were averaged for married and single members. Money could be saved if the increment for quarters in the salary system was somewhat below the average of the married and single rates.

Because of state income tax liabilities, the overall result of a salary system program--regardless of the final decision concerning the matching of single and married BAQ increments--would be to create a more attractive package for single enlistees and a somewhat less attractive package for married personnel. As noted above, particularly for junior enlisted personnel, such a change would be in the interest of attracting personnel better able to meet the sudden and unexpected demands of current-day crises.

In past years, the Department of Defense has registered repeated opposition to the adoption of a salary system. Their objections have been as follows:

1. In terms of total compensation, a salary system is not more able to meet its "equal pay for equal work" objective than is the pays and allowances system.
2. A salary system that does not reduce the take-home pay of service members will be somewhat more costly to the Government in time of war and to DOD even in peacetime.
3. A salary system will increase the size of the manpower portion of the DOD budget.
4. The military departments object to a salary system on the grounds that it is one more step in the progressive "civilianization" of the Armed Forces. It will not reinforce military customs, traditions, and way of life, but will detract from them.

Regarding DOD's first disadvantage, we recognize that a salary system will not result in members' receiving the same total compensation. But it will reduce the discrepancies of RMC by paying the same salary to all members of the same grade and length of service. By reducing the inequities in the base pay and allowances system, there will also be a reduction of inequities in total compensation.

We do not know if a salary system would be more costly to the Government in time of war. We note, however, that DOD's apparent belief is that an inefficient and inequitable system should be retained in peacetime so that the apparent cost of war might be less.

The third disadvantage cited is that a salary system will increase the manpower portion of the DOD budget. Although this is true, we believe it is a distinct advantage. It simply requires more accurate accounting of the current cost, rather than partially concealing it in reduced revenues to the Treasury. We believe DOD should fully report all of its compensation costs, and then the DOD budget can be recognized by the Congress, the member, and the taxpayer.

The fourth disadvantage cited was that a salary system is a step in the progressive "civilianization" of the Armed Forces and will detract from military customs, traditions, and way of life. OMB and DOD officials have stated that the Services believe this would adversely affect combat effectiveness.

It is true that a salary system is a departure from the traditional method of paying military personnel. However, we fail to see the connection between combat effectiveness and the expression of military pay. It appears to us that combat effectiveness is related more to the quality of military leadership and dedication to duty than to whether pay is expressed in several different elements, RMC, or in one salary.

20-Year Retirement

The second area which I would like to discuss with you concerns the military retirement system and whether the current 20-year plan contributes to the effectiveness of military personnel and achieves our manning goals at the least cost.

As you know, the uniformed services retirement system covers members of the Army, Navy, Air Force, Marine Corps, and Coast Guard, and the commissioned officers corps of the Public Health Service and NOAA. In 1980, the system covered about 2.9 million regular and reserve members. Some aspects of the present system are traceable to laws enacted before the Civil War. However, the current system is based primarily on legislation enacted in the late 1940s. Generally, the law authorizing retirement for members of the uniformed services are codified in titles 10, 14, 33, and 42 of the United States Code.

Participants are also covered by social security and are eligible for Veterans Administration (VA) benefits. Members contribute to social security, but not to the retirement system. VA benefits are offset against benefits payable from the retirement system.

The uniformed services retirement system has several features not generally found in retirement systems for Federal civilian employees. These features include:

- Retirement with immediate benefits at any age after 20 years of service.
- Retirement benefit amounts based on terminal pay rates rather than average pay over a certain number of years.
- No contribution by covered personnel toward the cost of the system.
- No vested rights for members who separate before they are eligible for immediate retirement benefits (20 years).

Concerning the system, DOD officials believe that without the prospect of 20-year retirement, members would not be as willing to accept the potential worklife. Also, they indicated that members would not accept the military way of life for more than 20 years.

As defined by DOD, the three broad objectives of the present military retirement system are to

- assist in attracting and retaining the kinds and numbers of qualified members required,
- provide a socially acceptable method of removing some members who must be separated to insure maintenance of a young and vigorous force, and
- provide, after many years of faithful service, some degree of financial security that is understood, assured, and protected against the inroads of future inflation.

Much of the debate centering on early retirement in the military concerns perceptions about the rigors of military life, time spent overseas, and combat readiness. According to DOD, 20-year retirement is needed to maintain a young and vigorous force

capable of meeting these requirements. Youth and vigor are viewed as a universal requirement for all members regardless of occupational specialty or type of assignment. Retirement eligibility has never been tied to the amount of time spent in hazardous or combat occupational specialties or locations, even though these types of assignments are often used as justification for early retirement. DOD officials speak in terms of the "aggregate force" or the "average member." They assume that 20-year retirement is necessary to let a member out after a reasonable period of time and that all members must be ready to serve in a combat environment.

DOD has no criteria for differentiating between demanding and less demanding duties because it maintains that youth and vigor are needed for all members. Therefore, the privilege of requesting early retirement is granted to all members without regard to the need for youth and vigor in their occupational specialty or location. The youth and vigor concept is used by DOD in administering their "up or out" policy for officers and as part of their rationale for continuing 20-year retirement for all officers and enlisted members.

In our view, however, combat-related jobs require younger personnel than other occupations. In noncombat jobs the maturity, experience, and judgment gained through longer service are more valuable than physical stamina and agility.

To determine how the Services were using their career personnel, we examined the career experiences of 800 military personnel

who retired in 1975. We found that career personnel spent far more time in support-type activities, such as administration and communication, than in combat-related activities, such as tactical and infantry operations. A full 92 percent of all the enlisted personnel career time and 67 percent of the officers' career months were spent on support-type activities which do not require extraordinary youth and vigor.

Some skills in the military do require youth and vigor, but the Services need to find definite answers to the following:

1. What skills require youth and vigor?
2. In what age bracket are members no longer able to perform their duties?
3. How much of the Force is actually engaged in work requiring youth and vigor?
4. How much of an individual's career is devoted toward more physically demanding work and at what stage of the member's career?
5. To what degree do career members perform the more physically demanding work?
6. Are the duties of Service members more concerned with judgment, knowledge, and experience?
7. Is the present mix of career and noncareer personnel the best?

We believe 20-year retirement is dictating the wants and desires of service personnel, rather than meeting the Services' needs and requirements. An economically efficient compensation

system should be designed to attract and retain the necessary quantity and quality of manpower. Twenty-year retirement, lack of vesting, and the competitive promotion system are an economically inefficient combination, because too many highly qualified members leave the Services to begin second careers.

This growing concern about the retirement system has been reflected in a variety of major studies conducted between 1967 and 1980. While each group took a somewhat different view of the issues, their criticisms centered particularly on those aspects of the retirement plan that provide generous annuities to Service members who serve at least 20 years, but none to those who serve less.

All in all, the common thread running through the proposals is that the military retirement system needs to be changed. A consensus exists regarding the need to encourage longer careers, on the one hand, and provide some benefits to those who serve less than 20 years, on the other. There is widespread agreement that to achieve these ends, annuities should be reduced for younger retirees and increased for older ones, and members should be vested after completing 10 years of service.

Beyond the effectiveness issue concerning retirement reform, there is the issue of cost. The military pay-as-you-go system now has an unfunded liability of close to \$500 billion. There also was a five fold increase in the cost of military retirement during the decade of the 1970s, an increase that far outran the cost increase in other elements of military compensation. In other words, unless changes are made, there is doubt that we will

be able to afford a continuation of the present system without making significant sacrifices in other areas.

While the cost of military retirement represents a substantial proportion of all defense expenditures, cost alone does not provide a case for change. Rather, change is needed because of three inherent deficiencies in the existing retirement plan.

As outlined by the President's Commission on Military Compensation, these deficiencies are:

First, the current system is inequitable. Compared to most public and private-sector systems, it provides significantly more generous benefits, including assistance after 20 years in completing a full working career and protecting retirees for a full 30 to 40 years or more from the ravages of inflation.

Second, the current system inhibits effective and flexible force management. Because the current system provides benefits only after 20 years of service, managers are reluctant to separate ineffective people who are approaching retirement eligibility. After a member has served 20 years, the availability of an immediate annuity lessens the incentive to remain on active duty. In sum, the system is constraining manpower managers from adapting personnel policies to a changing technological and strategic environment.

Third, the current system is inefficient. Various studies have shown that the retirement plan has little influence on prospective recruits or on Service members during their first term. At the same time, the current plan provides a strong incentive for

more senior personnel to remain on active duty, particularly those in their 12th through 19th year of service. In our view, desired recruitment and retention of both first-term and senior personnel can be achieved at a much lower cost by allocating a relatively larger proportion of total compensation to current pay.

In summary, then, in our opinion, continuation of 20-year retirement for all military personnel is not justified. Military officers retire at an average age of 46 with 24 years of service, and enlisted personnel retire at an average age of 41 with 21 years of service. The ability to receive retirement benefits at a relatively early age and begin a second career in other employment is, understandably, too powerful an incentive to resist, and there can be little doubt that few will do so unless there are fundamental changes in the system.

Objective Enlisted Force Composition

The third interrelated issue which I have chosen to address concerns the composition of the force; that is, whether the years of service and rank/grade distribution in the Services is providing the personnel needed for an effective and cost-efficient force.

This question is especially pertinent to the 1.8 million enlisted personnel who work in hundreds of technically diverse occupational specialties whose pay and allowances alone account for nearly two-thirds of the active military personnel costs.

The Services are permitted wide latitude in developing enlisted personnel management systems. Within limited constraints imposed by the Office of the Secretary of Defense, each Service

has independently pursued and developed enlisted management objectives using its own systems, sets of logic, rules, and policies. The Service objectives form the basis for the submission and justification of enlistment and reenlistment bonuses, grade authorizations, and basic and skill training programs, among other things. The Services specify these objectives in terms of grades and years of service for each occupational specialty (e.g., jet engine mechanic, cook, nuclear powerplant operator) and the aggregated enlisted force structure.

Because of its magnitude, even very small improvements in the way the enlisted force is configured can yield substantial dollar savings. For example, careerists draw higher pay and are generally more expensive to maintain than first-termers, since they make more extensive use of fringe benefits, such as medical care, dependents travel, and morale welfare and recreation privileges and are more likely to draw retirement benefits. While more expensive than first-termers, careerists are presumably more productive as well. First-termers, on the other hand, are both cheaper and less productive than careerists and require initial training before they can be productively employed. Given the relative costs and productivity of first-termers and careerists in each occupational specialty, it is our view that the Services should be asking: Which investment is likely to be more beneficial--

1. more careerists who receive higher pay, reenlistment bonuses, and other fringe benefits or

2. first-termers who, although paid less, are costly to recruit and train?

In our opinion, each of the Services must be more cost conscious in addressing such personnel/manpower management decisions.

While the Services' plans show that they can project the long-term effects of management decision on force configuration, they do not justify their choices on an objective cost/benefit basis. For example, if better retention is the objective, is it equally good or necessary for all occupations? At what point does it become unnecessarily good or too costly?

One of the most important elements missing in the Services' enlisted management systems is a viable measure of benefit which can be used to analyze the expected return from changes in the force configuration. Generally, externally imposed statements of need, usually expressed as personnel requirements and cost in the form of budget dollars, have dictated force configuration. Within these constraints, however, there is considerable discretion for the decisionmakers, especially on decisions affecting grade and years of service of each occupational specialty.

Our examination of these issues shows a need for research on the relative value and cost-benefit analyses of enlisted force configurations. It is difficult to know how much to pay for something without knowing how valuable it is. Whereas considerable effort appears to have gone into developing compatible policies for maintaining a stable number of careerists, the problem of maintaining a given level of effectiveness or estimating the

marginal contribution of a person in each occupation, pay grade, and experience level has been neglected. This may be the most glaring deficiency in the Services' analysis of questions concerning force configuration.

The recent across-the-board pay raises for Service personnel is highly illustrative of the need for this capability. The raise was largely predicated on the basis that there are serious shortages of senior enlisted personnel and that large numbers of them--particularly in critical skills--are leaving the service for better paying jobs on the outside. Yet, in spite of widespread perceptions about such problems, the active duty enlisted career force has been quite stable in size since the beginning of the AVF. Indeed, the Army career size has increased. However, a closer examination of the components of the career force by years of service distribution identifies a somewhat different picture; that is, there is a significant shortage, except for the Air Force, in the 15-30-year service cohorts.

This shortage has been caused by (1) retirements of the abnormally large group of senior Noncommissioned Officers (NCO's) who entered the Services during the build-ups for the Korean war and the Berlin Crisis and (2) low reenlistment rates for today's senior NCO cohorts when they were junior NCO's during the Vietnam War years. To offset this shortage, the Services have a surplus of junior careerists.

In addition, over the next 2 years, reenlistment dollars are programmed to double and bonuses will be paid to personnel

with 10-14 years service in hard-to-man occupations. Coupled with across-the-board raises, very large sums of money will be spent in the interest of increasing retention and the size of the career force. In our view, such an aggregate approach to military personnel management only produces inadequate solutions to individual specialty needs, causes serious career force and occupational specialty imbalances, and distorts retirement compensation practices.

In contrast, a more occupational and years-of-service specific plan--if properly developed and supported--could provide the Services with better qualified people in critical areas and at less cost.

- - - - -

In closing, I would like to say that GAO, like the Congress, is interested in identifying those initiatives which can lead to greater effectiveness and less cost. In the areas of a salary system, amendments to the 20-year retirement, and an objective enlisted force composition, we believe that such opportunities exist.

We hope that you and your committee will give these proposals your serious consideration.

Mr. Chairman, I will be happy to respond to any questions that you may have at this time.